

**REPORT OF THE AUDIT OF THE
MAGOFFIN COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2012**



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ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Steven L. Beshear, Governor
Lori H. Flanery, Secretary
Finance and Administration Cabinet
Honorable Charles E. Hardin, Magoffin County Judge/Executive
Members of the Magoffin County Fiscal Court

The enclosed report prepared by Percy and Gray, PSC, presents the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Magoffin County, Kentucky, as of and for the year ended June 30, 2012, which collectively comprise the County's basic financial statements.

We engaged Percy and Gray, PSC, to perform the audit of these financial statements. We worked closely with the firm during our report review process; Percy and Gray, PSC, evaluated the Magoffin County's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Adam H. Edelen".

Adam H. Edelen
Auditor of Public Accounts

Enclosure



EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE MAGOFFIN COUNTY FISCAL COURT

June 30, 2012

Peercy and Gray, PSC has completed the audit of the Magoffin County Fiscal Court for fiscal year ended June 30, 2012.

We have issued unqualified opinion, based on our audit, on the governmental activities, each major fund, and the aggregate remaining fund information financial statements of Magoffin County, Kentucky.

In accordance with OMB Circular 133, we have also issued an unqualified opinion on the compliance requirements that are applicable to the Magoffin County Fiscal Court's major federal programs: U.S. Department of Agriculture - Emergency Watershed Protection Program (CFDA #10.923) and U.S. Department of Homeland Security - Public Assistance Grants (CFDA #97.036) for the year ended June 30, 2012.

Financial Condition:

The fiscal court had total net assets of \$13,525,776 as of June 30, 2012. The fiscal court had unrestricted net assets of \$2,460,076 in its governmental activities as of June 30, 2012. The fiscal court had total debt principal as of June 30, 2012 of \$5,217,235 with \$148,799 due within the next year.

Report Comments:

- 2012-01 The Fiscal Court Should Improve Procedures Over Capital Assets
- 2012-02 The Fiscal Court Should Record Receipts For Reimbursements Of Expenditures In The Fund For Which The Expenditure Was Recorded
- 2012-03 The County Should Strengthen Controls Over Payroll As It Relates To Federal Grants

Deposits:

The fiscal court's deposits were insured and collateralized by bank securities.

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PEEROY AND GRAY, PSC

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To the People of Kentucky

Honorable Steven L. Beshear, Governor

Lori H. Flanery, Secretary

Finance and Administration Cabinet

Honorable Charles E. Hardin, Magoffin County Judge/Executive

Members of the Magoffin County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Magoffin County, Kentucky, as of and for the year ended June 30, 2012, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of Magoffin County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Magoffin County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Magoffin County, Kentucky, as of June 30, 2012, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

To the People of Kentucky
Honorable Steven L. Beshear, Governor
Lori H. Flanery, Secretary
Finance and Administration Cabinet
Honorable Charles E. Hardin, Magoffin County Judge/Executive
Members of the Magoffin County Fiscal Court

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Magoffin County, Kentucky's basic financial statements. The combining fund financial statements and budgetary comparison information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and is not a required part of the basic financial statements. The combining fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining fund financial statements and schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The budgetary comparison information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

In accordance with Government Auditing Standards, we have also issued our report dated February 12, 2013 on our consideration of Magoffin County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the accompanying schedule of findings and questioned costs included herein, which discusses the following report comments:

- 2012-01 The Fiscal Court Should Improve Procedures Over Capital Assets
- 2012-02 The Fiscal Court Should Record Receipts For Reimbursements Of Expenditures In The Fund For Which The Expenditure Was Recorded
- 2012-03 The County Should Strengthen Controls Over Payroll As It Relates To Federal Grants

Respectfully submitted,



Percy and Gray, PSC
Certified Public Accountants

February 12, 2013

MAGOFFIN COUNTY OFFICIALS

For The Year Ended June 30, 2012

Fiscal Court Members:

Charles Hardin	County Judge/Executive
Gary Risner	Magistrate
Pernell Lemaster	Magistrate
Ronnie Lovely	Magistrate

Other Elected Officials:

Gregory D. Allen	County Attorney
Bryan Montgomery	Jailer
Renee Arnett Shepherd	County Clerk
Tonya Ward	Circuit Court Clerk
Carson Montgomery	Sheriff
Jerry Swiney	Property Valuation Administrator
Anthony Jenkins	Coroner

Appointed Personnel:

Mike Wilson	Deputy Judge
Kila Keeton	County Treasurer
Susie Salyer (July-November)	Finance Officer
Jimmy Salyer (November-June)	Finance Officer

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MAGOFFIN COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2012

MAGOFFIN COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2012

	<u>Primary Government Governmental Activities</u>
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 3,775,056
Receivable	70,000
Total Current Assets	<u>3,845,056</u>
Noncurrent Assets:	
Capital Assets - Net of Accumulated Depreciation	
Land	1,054,003
Buildings	10,762,560
Vehicles and Equipment	678,625
Infrastructure	2,402,767
Total Noncurrent Assets	<u>14,897,955</u>
Total Assets	<u>18,743,011</u>
LIABILITIES	
Current Liabilities:	
Bonds Payable	124,800
Financing Obligations Payable	23,999
Total Current Liabilities	<u>148,799</u>
Noncurrent Liabilities:	
Bonds Payable	5,030,700
Financing Obligations Payable	37,736
Total Noncurrent Liabilities	<u>5,068,436</u>
Total Liabilities	<u>5,217,235</u>
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	9,680,720
Restricted For:	
Protection to Persons Property	6,229
Roads	397,746
Capital Projects	981,005
Unrestricted	2,460,076
Total Net Assets	<u><u>\$ 13,525,776</u></u>

The accompanying notes are an integral part of the financial statements.

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MAGOFFIN COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2012

MAGOFFIN COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2012

		Program Revenues Received		
Functions/Programs Reporting Entity	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 2,157,273	\$ 10	\$ 936,572	\$ 69,375
Protection to Persons and Property	1,221,139		55,944	
General Health and Sanitation	152,825		256,417	
Social Services	39,063			
Recreation and Culture	240,382	400		
Roads	909,156		3,374,387	
Interest on Long-Term Debt	258,581			
Capital Projects	571,370			
Total Primary Government	\$ 5,549,789	\$ 410	\$ 4,623,320	\$ 69,375

General Revenues:

Taxes:

 Real Property Taxes

 Personal Property Taxes

 Motor Vehicle Taxes

 Occupational Tax

 Other Taxes

Excess Fees

Miscellaneous Revenues

Unrestricted Investment Earnings

Total General Revenues and Transfers

Change in Net Assets

Net Assets - Beginning

Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

MAGOFFIN COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2012
(Continued)

Net (Expenses) Revenues
and Changes in Net Assets
Primary Government

Governmental
Activities

\$	(1,151,316)
	(1,165,195)
	103,592
	(39,063)
	(239,982)
	2,465,231
	(258,581)
	(571,370)
	(856,684)
	476,478
	186,597
	111,136
	685,042
	734,011
	26,489
	198,595
	1,829
	2,420,177
	1,563,493
	11,962,283
\$	13,525,776

The accompanying notes are an integral part of the financial statements.

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MAGOFFIN COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2012

MAGOFFIN COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2012

	General Fund	Road Fund	LGEA Fund	Solid Waste Fund
ASSETS				
Cash and Cash Equivalents	\$1,761,407	\$ 397,746	\$ 1,181,005	\$ 172,466
Due From Other Funds	200,000			
Total Assets	<u>1,961,407</u>	<u>397,746</u>	<u>1,181,005</u>	<u>172,466</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Due To Other Funds			200,000	
Total Liabilities			<u>200,000</u>	
FUND BALANCES				
Restricted For:				
Protection to Persons and Property	6,229			
Roads		397,746		
Capital Projects			981,005	
Assigned To:				
General Health and Sanitation				172,466
Protection to Persons and Property	532			
Roads	17,821			
Debt Service	222			
Unassigned	<u>1,936,603</u>			
Total Fund Balances	<u>1,961,407</u>	<u>397,746</u>	<u>981,005</u>	<u>172,466</u>
Total Liabilities and Fund Balances	<u>\$1,961,407</u>	<u>\$ 397,746</u>	<u>\$ 1,181,005</u>	<u>\$ 172,466</u>

The accompanying notes are an integral part of the financial statements.

MAGOFFIN COUNTY
BALANCE SHEET-GOVERNMENTAL FUNDS-MODIFIED CASH BASIS
June 30, 2012
(Continued)

Magoffin County		
Public Properties		
Corporation	Non-	Total
Justice Center	Major	Governmental
Fund	Funds	Funds
\$ 3,523	\$ 258,909	\$ 3,775,056
		200,000
<u>3,523</u>	<u>258,909</u>	<u>3,975,056</u>
		200,000
		<u>200,000</u>
		6,229
		397,746
		981,005
		172,466
	8,900	9,432
	250,000	267,821
3,523	9	3,754
		<u>1,936,603</u>
<u>3,523</u>	<u>258,909</u>	<u>3,775,056</u>
<u>\$ 3,523</u>	<u>\$ 258,909</u>	<u>\$ 3,975,056</u>

Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets:

Total Fund Balances	\$ 3,775,056
Amounts Reported For Governmental Activities In The Statement	
Of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources	
And Therefore Are Not Reported in the Funds.	17,715,932
Accumulated Depreciation	(2,817,977)
Long-term debt is not due and payable in the current period and, therefore, is not reported in the funds.	
Financing Obligations	(61,735)
Bonds	(5,155,500)
Receivables	70,000
Net Assets Of Governmental Activities	<u>\$ 13,525,776</u>

The accompanying notes are an integral part of the financial statements.

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MAGOFFIN COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2012

MAGOFFIN COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2012

	General Fund	Road Fund	LGEA Fund	Solid Waste Fund
REVENUES				
Taxes	\$ 1,826,776	\$	\$	\$ 78,257
Excess Fees	26,489			
Licenses and Permits	63,797	3,639		
Intergovernmental	571,760	2,078,094	1,296,293	256,417
Charges for Services	10		400	
Miscellaneous	136,266	5,529	24,753	31,939
Interest	648	395	518	62
Total Revenues	<u>2,625,746</u>	<u>2,087,657</u>	<u>1,321,964</u>	<u>366,675</u>
EXPENDITURES				
General Government	867,690	8,100	44,863	
Protection to Persons and Property	785,877		176,542	
General Health and Sanitation	50,000		10,400	124,589
Social Services			39,063	
Recreation and Culture			207,362	
Roads		1,170,974	176,101	
Debt Service	82,195			26,278
Capital Projects	20,500	772,439	39,000	54,371
Administration	604,660	281,498	46,087	47,643
Total Expenditures	<u>2,410,922</u>	<u>2,233,011</u>	<u>739,418</u>	<u>252,881</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>214,824</u>	<u>(145,354)</u>	<u>582,546</u>	<u>113,794</u>
Other Financing Sources (Uses)				
Bond Issuance				
Premium On Bond Issuance				
Financing Obligation Proceeds	19,431			
Transfers From Other Funds	507,801			3,800
Transfers To Other Funds	(323,953)		(243,992)	
Total Other Financing Sources (Uses)	<u>203,279</u>		<u>(243,992)</u>	<u>3,800</u>
Net Change in Fund Balances	418,103	(145,354)	338,554	117,594
Fund Balances - Beginning (Restated)	1,543,304	543,100	642,451	54,872
Fund Balances - Ending	<u>\$ 1,961,407</u>	<u>\$ 397,746</u>	<u>\$ 981,005</u>	<u>\$ 172,466</u>

The accompanying notes are an integral part of the financial statements.

MAGOFFIN COUNTY
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2012
(Continued)

Magoffin County Public Properties Corporation Justice Center Fund	Non- Major Funds	Total Governmental Funds
\$	\$ 220,795	\$ 2,125,828
		26,489
		67,436
490,131		4,692,695
		410
	108	198,595
189	17	1,829
<u>490,320</u>	<u>220,920</u>	<u>7,113,282</u>
		920,653
	238,602	1,201,021
		184,989
		39,063
		207,362
		1,347,075
5,660,396	9,105	5,777,974
	36,265	922,575
	64,339	1,044,227
<u>5,660,396</u>	<u>348,311</u>	<u>11,644,939</u>
<u>(5,170,076)</u>	<u>(127,391)</u>	<u>(4,531,657)</u>
5,070,000		5,070,000
102,249		102,249
		19,431
	56,345	567,946
	(1)	(567,946)
<u>5,172,249</u>	<u>56,344</u>	<u>5,191,680</u>
2,173	(71,047)	660,023
1,350	329,956	3,115,033
<u>\$ 3,523</u>	<u>\$ 258,909</u>	<u>\$ 3,775,056</u>

The accompanying notes are an integral part of the financial statements.

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**MAGOFFIN COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

For The Year Ended June 30, 2012

MAGOFFIN COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2012

Net Change in Fund Balances - Total Governmental Funds	\$	660,023
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Amounts reported for governmental activities in the Statement of Activities are different because Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.

Capital Outlay		943,844
Depreciation Expense		(418,087)

Notes Receivable paid in the current year from the Governmental Funds financial resources. These transaction have no effect on net assets.		50,000
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The issuance of long-term debt (e.g. bonds, financing obligations) provides current financial resources to governmental funds, while repayment of principal on long-term debt consumes the current financial resources of Governmental Funds. These transactions, however, have no effect on net assets.

Proceeds from Financing Obligations		(19,431)
Proceeds from Bond Issue		(5,070,000)
Financing Obligations Principal Payments		102,544
Bond Principal Payments		<u>5,314,600</u>

Change in Net Assets of Governmental Activities	\$	<u><u>1,563,493</u></u>
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**INDEX FOR NOTES
TO THE FINANCIAL STATEMENTS**

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MAGOFFIN COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2012

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivable are recognized on the Statement of Net Assets, but notes receivable are not included and recognized on Balance Sheet - Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Magoffin County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. All other component units are discretely presented.

Blended Component Units

The following legally separate organizations provide their services exclusively to the primary government, and the fiscal court is able to impose its will on this organization. These organizations' balances and transactions are reported as though they are part of the county's primary government using the blending method.

Magoffin County Public Properties Corporation

The Magoffin County Fiscal appoints a voting majority of the Magoffin County Public Properties Corporation's governing board and has the ability to impose its will on the governing board. In addition, the fiscal court is financially accountable and legally obligated for the debt of the Magoffin County Public Properties Corporation.

MAGOFFIN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Magoffin County Elected Officials

Kentucky law provides for election of the officials below from the geographic area constituting Magoffin County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Magoffin County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

MAGOFFIN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to sale ninety days following April 15.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

Governmental Funds

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Department for Local Government requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck license distribution, municipal road aid, and transportation grants. The Department for Local Government requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Local Government Assistance (LGEA) Fund - These funds may be spent for public safety, environmental protection, public transportation, health, recreation, libraries, social services, industrial and economic development, workforce training and secondary wood industry development. In no event shall these funds be used for expenses relating to the administration of government. The Department of Local Government requires the Fiscal Court to maintain these receipts and expenditures separately from the General Fund.

Solid Waste Fund - The source of revenue for this fund is franchise fees, state grants and recycling receipts. These funds are spent on solid waste and recycling expenditures.

The Magoffin County, Public Properties Corporation - Justice Center issued debt to purchase property and build facilities of the justice center. The Magoffin County, Public Properties Corporation - Justice Center entered into a contract, lease, and option with the County and Administrative Office of The Courts (AOC), Commonwealth of Kentucky. The Department for Local Government does not require the fiscal court to report or budget the Magoffin County, Public Properties Corporation – Justice Center Fund.

MAGOFFIN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Governmental Funds (Continued)

The primary government also has the following non-major funds: 911 Fund, Community Center Sinking Fund, Health Department Fund, and Escrow for Clear River Fund. In compliance with GASB 54, the county has determined to combine and present the Jail Fund, Forest Fire Fund, Right of Way Use Fund and the Reserve Fund in the General Fund.

Special Revenue Funds:

The Road Fund, Local Government Economic Assistance Fund, Solid Waste Fund, 911 Fund, Community Center Sinking Fund, Health Department Fund, and the Escrow for Clear River Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of significant restricted and/or committed revenue sources and expenditures that are legally restricted or committed for specific purposes.

Debt Service Funds

The Magoffin County, Public Properties Corporation - Justice Center and the Community Center Sinking Fund are presented as debt service funds. The purpose of these funds is to account for the activities of the Public Properties Corporation, and the Community Center Sinking Fund.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 31 following the assessment, and subject to lien and sale on June 30 following the delinquency date.

E. Deposits

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

MAGOFFIN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

F. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 5,000	3-25
Buildings and Building Improvements	\$ 5,000	10
Machinery and Equipment	\$ 5,000	20-50
Vehicles	\$ 5,000	20-40
Infrastructure	\$ 5,000	10-50

F. Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

MAGOFFIN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

G. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into non-spendable and spendable components, if applicable.

Non-spendable includes amounts that must be maintained intact legally or contractually.

Spendable include the following:

- Restricted-amounts constrained for a specific purpose by external parties, constitutional provisions, or enabling legislation.
- Committed-amounts constrained for a specific purpose by the county using its highest level of decision making authority.
- Assigned-for all governmental funds, other than general fund, any remaining positive amounts not classified as non-spendable, restricted, or committed. For the general fund, amounts constrained by intent to be used for a specified purpose by the County or the delegated county committee or official given authority to assign amounts.
- Unassigned-for the general fund, amounts not classified as non-spendable, restricted, committed or assigned. For all other governmental funds, amount expended in excess of resources that are non-spendable, restricted, committed or assigned.

For resources considered committed, the county issues an ordinance or resolution that can only be changed with another corresponding ordinance or resolution.

Encumbrances, although not reported on the balance sheet, are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Due to the modified cash basis of accounting, encumbrances can also include invoices for goods or services received at June 30, but not yet paid and not included as an accounts payable. Significant encumbrances at year end are reported by major funds and non-major funds in the aggregate and included with the commitments and contingencies note disclosure, if applicable.

H. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

A formal budget is not adopted for the Magoffin County Public Properties Corporation Justice Center Fund. The Department for Local Government does not require this fund to be budgeted.

MAGOFFIN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

I. Related Organizations, Joint Venture, and Jointly Governed Organization

A legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility is a joint venture. Based upon these criteria, the Big Sandy Regional Jail is considered a joint venture of the Johnson Fiscal Court, Lawrence County Fiscal Court, Magoffin Fiscal Court, and the Martin Fiscal Court.

J. Interfund Transfers

	General Fund	LGEA Fund	Non-Major Funds	Total Transfers In
General Fund	\$ 263,808	\$ 243,992	\$ 1	\$ 507,801
Solid Waste Fund	3,800			3,800
Non-Major	56,345			56,345
Total Transfers Out	<u>\$ 323,953</u>	<u>\$ 243,992</u>	<u>\$ 1</u>	<u>\$ 567,946</u>

Reasons For Transfers:

- To move resources from the General Fund and LGEA Fund, for budgetary purposes, to the fund that will expend them.

Note 2. Deposits

The primary government maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The government does not have a deposit policy for custodial credit risk, but rather follows the requirements of KRS 41.240 (4). As of June 30, 2012, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

MAGOFFIN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012
(Continued)

Note 3. Capital Assets

Capital asset activity for the year ended June 30, 2012 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
Primary Government:				
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 1,054,003	\$	\$	\$ 1,054,003
Construction in Progress	298,254		(298,254)	
Total Capital Assets Not Being Depreciated	1,352,257		(298,254)	1,054,003
Capital Assets, Being Depreciated:				
Buildings	12,248,247	324,900		12,573,147
Vehicles and Road Equipment	894,529	324,559		1,219,088
Infrastructure	2,277,055	592,639		2,869,694
Total Capital Assets Being Depreciated	15,419,831	1,242,098		16,661,929
Less Accumulated Depreciation For:				
Buildings	(1,597,033)	(213,554)		(1,810,587)
Vehicles and Equipment	(452,344)	(88,119)		(540,463)
Infrastructure	(350,513)	(116,414)		(466,927)
Total Accumulated Depreciation	(2,399,890)	(418,087)		(2,817,977)
Total Capital Assets, Being Depreciated, Net	13,019,941	824,011		13,843,952
Governmental Activities Capital Assets, Net	<u>\$ 14,372,198</u>	<u>\$ 824,011</u>	<u>\$ (298,254)</u>	<u>\$ 14,897,955</u>
<u>Governmental Activities:</u>				
General Government			\$ 192,393	
Protection to Persons and Property			20,118	
General Health and Sanitation			17,836	
Recreation and Culture			33,020	
Roads			154,720	
Total Depreciation Expense - Governmental Activities			<u>\$ 418,087</u>	

MAGOFFIN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012
(Continued)

Note 4. Receivables

In August 2008, the Magoffin County Fiscal Court loaned \$20,000 to the Magoffin County Water District. The funds were used to install a water line extension to a family that was still carrying water from other sources to the dwelling. In September and October of 2011, Magoffin County Fiscal Court loaned the Magoffin County Water District a total of \$50,000, which was then paid to Kentucky Power on behalf of the City of Salyersville Water and Sewer. The receivable reflects the principal amount due from the Magoffin County Water District of \$70,000 outstanding as of June 30, 2012. The amount receivable corresponds to the Magoffin County Water District liability outstanding as the end of the fiscal year.

Note 5. Long-term Debt

A. First Mortgage Revenue Bonds, Series 1995

In June 1995, the fiscal court entered into an agreement with Farmers Home Administration to borrow \$140,000 at 5% interest for the completion of the Magoffin County Community Center Project. The county will pay semiannual installments due on July 1 and January 1 of each year in accordance with a schedule to complete the contract. The principal balance of the agreement was \$85,500 as of June 30, 2012. Principal payment requirements and scheduled interest for the remaining term of the contract are presented below.

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2013	4,800	4,275
2014	5,100	4,035
2015	5,300	3,780
2016	5,600	3,515
2017	5,900	3,235
2018-2022	34,100	11,450
2023-2025	24,700	2,500
	<u>\$ 85,500</u>	<u>\$ 32,790</u>

B. Magoffin County Public Properties Corporation-Justice Center

On August 1, 2002, the Public Properties Corporation, a component unit of the Magoffin County Fiscal Court, issued \$7,855,000 in First Mortgage Revenue Bonds for the construction of the Justice Center. Semiannual principal and interest payments are required in May and November of each year beginning May 2003. The bonds were refunded in full March 2012 and replaced with First Mortgage Refunding Revenue Bonds, Series 2012.

The Public Properties Corporation is acting as an agent for the Administrative Office of the Courts (AOC) in order to manage and maintain the Magoffin County Courthouse. The Public Properties Corporation expects rentals for use of the Magoffin County Courthouse to be in the full amount of the principal and interest requirements of the bonds.

MAGOFFIN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012
(Continued)

Note 5. Long-term Debt (Continued)

C. Magoffin County Public Properties Corporation-Justice Center First Mortgage Refunding Revenue Bonds

On March 7, 2012, the Public Properties Corporation, a component unit of the Magoffin County Fiscal Court, issued \$5,070,000 in First Mortgage Refunding Revenue Bonds for the payment of debt for the construction of the Justice Center. Semiannual principal and interest payments are required in May and November of each year beginning May 2012.

The Public Properties Corporation is acting as an agent for the Administrative Office of the Courts (AOC) in order to manage and maintain the Magoffin County Courthouse. The Public Properties Corporation expects rentals for use of the Magoffin County Courthouse to be in the full amount of the principal and interest requirements of the bonds.

Under the terms of a lease, the AOC has agreed to pay directly to the paying agent bank, the use allowance payment as provided in the lease. The lease agreement is renewable each year. The Public Properties Corporation is in reliance upon the use allowance payment in order to meet debt service on the bonds.

The AOC with the execution of the lease expressed its intention to continue to pay the full allowance payment. However, the lease does not obligate the AOC to do so.

As of June 30, 2012, the principal balance on these bonds was \$5,070,000. Debt service requirements for the remaining years are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2013	\$ 120,000	\$ 112,813
2014	460,000	111,613
2015	460,000	107,012
2016	465,000	97,812
2017	475,000	88,512
2018-2022	2,535,000	283,638
2023	555,000	16,650
	<u>\$ 5,070,000</u>	<u>\$ 818,050</u>

D. Kentucky Infrastructure Authority Loan

The fiscal court entered into a loan agreement with Kentucky Infrastructure Authority, the purpose of which was to match funds required for the Appalachian Regional Commission grant received for the landfill construction. The total amount approved was \$300,000. This loan has an interest rate 3.8% and repayment began after all funds were drawn down. The county will pay semiannual installments due on June 1 and December 1 of each year in accordance with a schedule to complete the contract. The county was late in paying the amount due on June 1, 2006; payment was made in July 2006. The principal balance of the agreement was \$61,735 as of June 30, 2012. Principal payment requirements and scheduled interest for the remaining term of the contract are presented below:

MAGOFFIN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012
(Continued)

Note 5. Long-term Debt (Continued)

D. Kentucky Infrastructure Authority Loan (Continued)

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2013	23,999	2,232
2014	24,920	1,263
2015	12,816	256
	<u>\$ 61,735</u>	<u>\$ 3,751</u>

E. Kentucky Area Development District-Equipment

On December 3, 2001, the fiscal court entered into a capital lease agreement with Kentucky Area Development District for the purpose of purchasing equipment. The principal of the lease was \$490,000 with repayment to be made over a ten-year period. This loan was paid completely in fiscal year ending June 30, 2012.

F. Capital Lease-Sheriff's Vehicle

On September 13, 2010, the fiscal court entered into a capital lease agreement with Lease One Magnolia Bank for the purpose of purchasing a vehicle for the Sheriff's department. The principal of the lease was \$19,431 with repayment to be made over a two-year period. This loan was paid completely in fiscal year ending June 30, 2012.

G. Changes In Long-term Liabilities

Long-term liability activity for the year ended June 30, 2012, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government:					
<u>Governmental Activities:</u>					
Revenue Bonds	\$ 5,400,100	\$ 5,070,000	\$5,314,600	\$ 5,155,500	\$ 124,800
Financing Obligations	<u>144,848</u>	<u>19,431</u>	<u>102,544</u>	<u>61,735</u>	<u>23,999</u>
Governmental Activities					
Long-term Liabilities	<u>\$ 5,544,948</u>	<u>\$ 5,089,431</u>	<u>\$ 5,417,144</u>	<u>\$ 5,217,235</u>	<u>\$ 148,799</u>

MAGOFFIN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012
(Continued)

Note 6. Employee Retirement System

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 16.93 percent.

The county's contribution for FY 2010 was \$275,441, for FY 2011 was \$222,37, and was \$254,936 for FY2012

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

CERS also provides post retirement health care coverage as follows:

For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

Years of Service	% paid by Insurance Fund	% Paid by Member through Payroll Deduction
20 or more	100%	0%
15-19	75%	25%
10-14	50%	50%
4-9	25%	75%
Less than 4	0%	100%

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

MAGOFFIN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012
(Continued)

Note 7. Insurance

For the fiscal year ended June 30, 2012, Magoffin County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 8. Due To/Due From

As of June 30, 2012, the Local Government Economic Assistance (LGEA) Fund owes the General Fund \$200,000. This receivable and corresponding payable has resulted from a payment to the Magoffin County Library from the General Fund for a state grant receipt that was deposited into the LGEA fund.

Note 9. Change In Accounting Principle

The County implemented a new accounting standard, Governmental Accounting Standards Board (GASB) Statement 54, Fund Balance Reporting and Governmental Fund Type Definitions which has altered the classifications of fund balance on the Balance Sheet-Governmental Funds. Additionally, certain funds previously reported as special revenue funds that no longer meet the definition as stated in GASB statement 54 have now been included in the general fund.

As a result, beginning Fund Balance for the General Fund has been decreased for the addition of previously reported Jail Fund, Forestry Fund, Reserve Fund and the Right of Way Use Fund and the exclusion of the Solid Waste Fund. The effect of the change is a total decrease of \$54,872 in the General Fund. In the prior year, the Solid Waste Fund was included in the General Fund, but in the current year the fund received an increase in intergovernmental revenue and now qualifies as a special revenue fund.

Note 10. Contingent Liability

The Magoffin County Fiscal Court has entered into an agreement with a private corporation to grant the corporation the right and authority to transport, haul and transfer coal from its coal mine sites upon and across a particular Magoffin County roadway. In exchange for the use of the County roadway and to help defer any additional maintenance costs that may arise as a consequence of the expected heavier traffic flow from this anticipated transport of coal, the corporation agrees to pay into an escrow account to be maintained by the Magoffin County Fiscal Court an amount of fifty cents per ton of coal hauled not to exceed \$250,000. From each fifty cents per ton of coal hauled across the roadway, the Magoffin County Fiscal Court shall receive five cents per ton to help defray any additional costs of upkeep, repair or maintenance caused by heavier use of such coal transportation. The balance of any and all monies held in the account not otherwise used by the Magoffin County Fiscal court to repair, maintain or upkeep of the roadway shall revert back to the corporation.

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**MAGOFFIN COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Supplementary Information**

June 30, 2012

MAGOFFIN COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Supplementary Information

June 30, 2012

	911 Fund	Community Center Sinking Fund	Escrow For Clear River Fund	Total Non-Major Governmental Funds
ASSETS				
Cash and Cash Equivalents	\$ 8,900	\$ 9	\$ 250,000	\$ 258,909
Total Assets	<u>8,900</u>	<u>9</u>	<u>250,000</u>	<u>258,909</u>
FUND BALANCES				
Assigned To:				
Protection to Persons and Property	8,900			8,900
Roads			250,000	250,000
Debt Service		9		9
Total Fund Balances	<u>\$ 8,900</u>	<u>\$ 9</u>	<u>\$ 250,000</u>	<u>\$ 258,909</u>

The accompanying notes are an integral part of the financial statements.

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MAGOFFIN COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Supplementary Information

For The Year Ended June 30, 2012

MAGOFFIN COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Supplementary Information

For The Year Ended June 30, 2012

	911 Fund	Community Center Sinking Fund	Health Department Fund	Escrow For Clear River Fund	Total Non-Major Governmental Funds
REVENUES					
Taxes	\$ 220,795	\$	\$	\$	\$ 220,795
Miscellaneous	108				108
Interest	17				17
Total Revenues	<u>220,920</u>				<u>220,920</u>
EXPENDITURES					
Protection to Persons and Property	238,602				238,602
Debt Service		9,105			9,105
Capital Projects	36,265				36,265
Administration	<u>64,339</u>				<u>64,339</u>
Total Expenditures	<u>339,206</u>	<u>9,105</u>			<u>348,311</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(118,286)</u>	<u>(9,105)</u>			<u>(127,391)</u>
Other Financing Sources (Uses)					
Transfers From Other Funds	49,492	6,853			56,345
Transfers To Other Funds			(1)		(1)
Total Other Financing Sources (Uses)	<u>49,492</u>	<u>6,853</u>	<u>(1)</u>		<u>56,344</u>
Net Change in Fund Balances	(68,794)	(2,252)	(1)		(71,047)
Fund Balances - Beginning	77,694	2,261	1	250,000	329,956
Fund Balances - Ending	<u>\$ 8,900</u>	<u>\$ 9</u>	<u>\$ 0</u>	<u>\$ 250,000</u>	<u>\$ 258,909</u>

The accompanying notes are an integral part of the financial statements.

MAGOFFIN COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fiscal Year Ended June 30, 2012

Federal Grantor		
Program Title	Pass-Through	
<u>Grant Name (CFDA #)</u>	<u>Grantor's Number</u>	<u>Expenditures</u>
U.S. Department of Agriculture		
Natural Resources Conservation Service		
Emergency Watershed Protection Program (ARRA)		
Install EWP Measures - Rockhouse Creek		
(CFDA #10.923)	68-5C16-12-038	\$ 29,160 *
Install EWP Measures - Stevens Fork and Cow Creek		
(CFDA #10.923)	68-5C16-12-050	114,300 *
		<hr/>
Total U. S. Department of Agriculture		143,460
U.S. Department of Homeland Security		
Passed-Through Commonwealth Department		
of Military Affairs:		
Public Assistance Grants		
April 2011 Flooding		
(CFDA #97.036)	FEMA-1976-DR-KY	81,185 *
Public Assistance Grants		
June 2011 Severe Storms		
(CFDA #97.036)	FEMA-4008-DR-KY	121,339 *
Public Assistance Grants		
March 2012 Tornado		
(CFDA #97.036)	FEMA-4057-DR-KY	268,023 *
Emergency Management Performance Grants		
Operations Grant		
(CFDA #97.042)	Unavailable	6,589
Homeland Security Grant Program		
Tower Project		
(CFDA #97.067)	Unavailable	28,380
Homeland Security Grant Program		
Radios		
(CFDA #97.067)	Unavailable	24,492
		<hr/>
Total U. S. Department of Homeland Security		530,008
		<hr/>
TOTAL CASH EXPENDITURES OF FEDERAL AWARDS		<u>\$ 673,468</u>

* Denotes Major Programs Tested.

MAGOFFIN COUNTY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fiscal Year Ended June 30, 2012

Note 1 - The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Magoffin County, Kentucky and is presented on a modified cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

Note 2 - Determination of Major Program

The type A program for the fiscal year is any program for which total expenditures of federal awards exceeds \$300,000 for fiscal year 2012 or were deemed high risk. The Type A programs were:

- Department of Agriculture - Emergency Watershed Protection Program - CFDA #10.923
- Department of Homeland Security - Public Assistance Grants - CFDA #97.036

Note 3 - Noncash Expenditures

There were no noncash expenditures of federal awards for fiscal year 2012.

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MAGOFFIN COUNTY
BUDGETARY COMPARISON INFORMATION
Other Information - Modified Cash Basis

For The Year Ended June 30, 2012

MAGOFFIN COUNTY
BUDGETARY COMPARISON INFORMATION
Other Information - Modified Cash Basis

For The Year Ended June 30, 2012

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 1,524,075	\$ 1,527,115	\$ 1,824,401	\$ 297,286
Excess Fees		469	26,489	26,020
Licenses and Permits	115,200	115,200	63,797	(51,403)
Intergovernmental Revenue	326,555	337,874	515,816	177,942
Charges for Services			10	10
Miscellaneous	101,100	106,371	136,140	29,769
Interest	300	300	631	331
Total Revenues	<u>2,067,230</u>	<u>2,087,329</u>	<u>2,567,284</u>	<u>479,955</u>
EXPENDITURES				
General Government	1,039,517	950,935	875,084	75,851
Protection to Persons and Property	93,967	257,926	257,456	470
General Health and Sanitation		50,000	50,000	
Debt Service	61,870	61,870	61,870	
Capital Projects	50,000			
Administration	661,552	676,139	569,647	106,492
Total Expenditures	<u>1,906,906</u>	<u>1,996,870</u>	<u>1,814,057</u>	<u>182,813</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>160,324</u>	<u>90,459</u>	<u>753,227</u>	<u>662,768</u>
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds			1	1
Transfers To Other Funds	<u>(329,846)</u>	<u>(329,846)</u>	<u>(323,953)</u>	<u>5,893</u>
Total Other Financing Sources (Uses)	<u>(329,846)</u>	<u>(329,846)</u>	<u>(323,952)</u>	<u>5,894</u>
Net Changes in Fund Balance	(169,522)	(239,387)	429,275	668,662
Fund Balance - Beginning (Restated)	<u>169,522</u>	<u>239,387</u>	<u>1,307,328</u>	<u>1,067,941</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,736,603</u>	<u>\$ 1,736,603</u>

MAGOFFIN COUNTY
BUDGETARY COMPARISON INFORMATION
Other Information - Modified Cash Basis
For The Year Ended June 30, 2012
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Licenses and Permits	\$ 5,500	\$ 5,500	\$ 3,639	\$ (1,861)
Intergovernmental Revenue	1,121,703	1,135,224	2,078,094	942,870
Miscellaneous		817	5,529	4,712
Interest	175	175	395	220
Total Revenues	<u>1,127,378</u>	<u>1,141,716</u>	<u>2,087,657</u>	<u>945,941</u>
EXPENDITURES				
General Government	10,800	8,100	8,100	
Roads	916,673	1,089,215	1,943,413	(854,198)
Administration	280,009	281,498	281,498	
Total Expenditures	<u>1,207,482</u>	<u>1,378,813</u>	<u>2,233,011</u>	<u>(854,198)</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(80,104)</u>	<u>(237,097)</u>	<u>(145,354)</u>	<u>91,743</u>
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	80,104	80,104		(80,104)
Total Other Financing Sources (Uses)	<u>80,104</u>	<u>80,104</u>		<u>(80,104)</u>
Net Changes in Fund Balance		(156,993)	(145,354)	11,639
Fund Balance - Beginning		<u>156,993</u>	<u>543,100</u>	<u>386,107</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 397,746</u>	<u>\$ 397,746</u>

MAGOFFIN COUNTY
BUDGETARY COMPARISON INFORMATION
Other Information - Modified Cash Basis
For The Year Ended June 30, 2012
(Continued)

LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 770,000	\$ 776,503	\$ 1,296,293	\$ 519,790
Charges for Services	2,000	2,000	400	(1,600)
Miscellaneous	10,000	10,261	24,753	14,492
Interest	100	154	518	364
Total Revenues	<u>782,100</u>	<u>788,918</u>	<u>1,321,964</u>	<u>533,046</u>
EXPENDITURES				
General Government	65,799	44,863	44,863	
Protection to Persons and Property	78,757	100,542	176,542	(76,000)
General Health and Sanitation	8,500	10,400	10,400	
Social Services	50,050	39,063	39,063	
Recreation and Culture	149,340	189,643	231,362	(41,719)
Roads	195,000	191,101	191,101	
Administration	56,000	46,087	46,087	
Total Expenditures	<u>603,446</u>	<u>621,699</u>	<u>739,418</u>	<u>(117,719)</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>178,654</u>	<u>167,219</u>	<u>582,546</u>	<u>415,327</u>
OTHER FINANCING SOURCES (USES)				
Transfers To Other Funds	<u>(278,654)</u>	<u>(278,654)</u>	<u>(243,992)</u>	<u>34,662</u>
Total Other Financing Sources (Uses)	<u>(278,654)</u>	<u>(278,654)</u>	<u>(243,992)</u>	<u>34,662</u>
Net Changes in Fund Balances	(100,000)	(111,435)	338,554	449,989
Fund Balances - Beginning (Restated)	<u>100,000</u>	<u>111,434</u>	<u>842,451</u>	<u>731,017</u>
Fund Balances - Ending	<u>\$ 0</u>	<u>\$ (1)</u>	<u>\$ 1,181,005</u>	<u>\$ 1,181,006</u>

MAGOFFIN COUNTY
BUDGETARY COMPARISON INFORMATION
Other Information - Modified Cash Basis
For The Year Ended June 30, 2012
(Continued)

	SOLID WASTE FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Taxes	\$ 60,000	\$ 60,000	\$ 78,257	\$ 18,257
Intergovernmental Revenue		9,905	256,417	246,512
Miscellaneous	30,000	30,000	31,939	1,939
Interest	50	50	62	12
Total Revenues	90,050	99,955	366,675	266,720
EXPENDITURES				
General Health and Sanitation	74,700	94,951	178,960	(84,009)
Debt Service	26,278	26,278	26,278	
Administration	26,835	22,778	47,643	(24,865)
Total Expenditures	127,813	144,007	252,881	(108,874)
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(37,763)	(44,052)	113,794	157,846
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	22,763	22,763	3,800	(18,963)
Total Other Financing Sources (Uses)	22,763	22,763	3,800	(18,963)
Net Changes in Fund Balances	(15,000)	(21,289)	117,594	138,883
Fund Balances - Beginning	15,000	21,289	54,872	33,583
Fund Balances - Ending	\$ 0	\$ 0	\$ 172,466	\$ 172,466

MAGOFFIN COUNTY
NOTES TO OTHER INFORMATION

June 30, 2012

Note 1. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Total expenditures exceeded budgeted appropriations by \$854,198 in the Road Fund, \$117,719 in the LGEA Fund, and \$108,874 in the Solid Waste Fund due to the county operating under emergency orders during the tornadoes of March 2012.

Note 2. Reconciliation To The Statement of Revenues, Expenditures, and Changes In Fund Balances

Reconciliation of the General Fund

Total Revenues-Budgetary Basis	\$ 2,567,284
To Adjust for Jail Fund Revenue	56,078
To Adjust For Forestry Fund Revenue	2,375
To Adjust For Right of Way Use Fund Revenue	9
Total Revenues-Modified Cash Basis	<u>\$ 2,625,746</u>
 Total Expenditures-Budgetary Basis	 \$ 1,814,057
To Adjust for Jail Fund Expenditures	574,477
To Adjust For Forestry Fund Expenditures	2,957
To adjust for purchase of capital asset	19,431
Total Expenditures-Modified Cash Basis	<u>\$ 2,410,922</u>
 Total Other Financing Sources-Budgetary Basis	 \$ (323,952)
To Adjust for Jail Fund Transfers	507,800
To adjust for proceeds from debt	19,431
Total Other Financing Sources-Modified Cash Basis	<u>\$ 203,279</u>
 Fund Balance-Beginning-Budgetary Basis	 \$ 1,307,328
To Adjust for Amount Due from LGEA Fund	200,000
To Adjust for Jail Fund Beginning Fund Balance	16,828
To Adjust for Forestry Fund Beginning Fund Balance	1,114
To Adjust for Right of Way Use Fund Beginning Fund Balance	17,812
To Adjust For Reserve Fund Beginning Fund Balance	222
Total Beginning Fund Balance-Modified Cash Basis	<u>\$ 1,543,304</u>

MAGOFFIN COUNTY
NOTES TO OTHER INFORMATION
June 30, 2012
(Continued)

Note 2. Reconciliation To The Statement of Revenues, Expenditures, and Changes In Fund Balances
(Continued)

Reconciliation of the General Fund

Fund Balance-Ending-Budgetary Basis	\$ 1,736,603
To Adjust for Amount Due from LGEA Fund	200,000
To Adjust for Jail Fund Ending Fund Balance	6,229
To Adjust for Forestry Fund Ending Fund Balance	532
To Adjust for Right of Way Use Fund Ending Fund Balance	17,821
To Adjust For Reserve Fund Ending Fund Balance	222
Total Ending Fund Balance-Modified Cash Basis	<u>\$ 1,961,407</u>

Reconciliation of the LGEA Fund

Fund Balance-Beginning-Budgetary Basis	\$ 842,451
To Adjust for Amount Due to General Fund	(200,000)
Total Beginning Fund Balance-Modified Cash Basis	<u>\$ 642,451</u>
Fund Balance-Ending-Budgetary Basis	\$ 1,181,005
To Adjust for Amount Due to General Fund	(200,000)
Total Ending Fund Balance-Modified Cash Basis	<u>\$ 981,005</u>

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



PEEROY AND GRAY, PSC

Certified Public Accountants

2300 Hurstbourne Village Drive, Suite 500

Louisville, Kentucky 40299

Phone: (502) 493-1090

FAX: (502) 493-7231

The Honorable Charles E. Hardin, Magoffin County Judge/Executive
Members of the Magoffin County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Magoffin County, Kentucky, as of and for the year ended June 30, 2012, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated February 12, 2013. Magoffin County presents its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Magoffin County Fiscal Court is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Magoffin County Fiscal Court's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Magoffin County Fiscal Court's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Magoffin County Fiscal Court's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2012-01 and 2012-02 to be material weaknesses.

Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Magoffin County's financial statements as of and for the year ended June 30, 2012, are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The Magoffin County Judge/Executive's responses to the findings identified in our audit are included in the accompanying schedule of findings and questioned costs. We did not audit the County Judge/Executive's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, others within the entity, the Department for Local Government, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink that reads "Percy and Gray, PSC". The signature is written in a cursive, flowing style.

Percy and Gray, PSC
Certified Public Accountants

February 12, 2013

**REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD
HAVE A DIRECT AND MATERIAL EFFECT EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**



PEERCY AND GRAY, PSC

Certified Public Accountants

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Louisville, Kentucky 40299

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FAX: (502) 493-7231

The Honorable Charles E. Hardin, Magoffin County Judge/Executive
Members of the Magoffin County Fiscal Court

Report On Compliance With Requirements That Could
Have A Direct And Material Effect On Each Major Program And On
Internal Control Over Compliance In Accordance With OMB Circular A-133

Independent Auditor's Report

Compliance

We have audited the compliance of Magoffin County, Kentucky, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. Magoffin County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Magoffin County Fiscal Court's management. Our responsibility is to express an opinion on Magoffin County Fiscal Court's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Magoffin County Fiscal Court's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Magoffin County Fiscal Court's compliance with those requirements.

As described in item 2012-03 in the accompanying schedule of findings and questioned costs, Magoffin County Fiscal Court did not comply with requirements regarding timesheet reimbursements that are applicable to the following major program:

- US Department of Homeland Security-Public Assistance Grant (CFDA 97.036)

Compliance with such requirements is necessary, in our opinion, for Magoffin County Fiscal Court to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, Magoffin County Fiscal Court complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Report on Compliance With Requirements
That Could Have A Direct And Material Effect On Each Major Program
And On Internal Control Over Compliance In Accordance With OMB Circular A-133
(Continued)

Internal Control Over Compliance

Management of the Magoffin County Fiscal Court is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Magoffin County Fiscal Court's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Magoffin County Fiscal Court's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that a material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified a deficiency in internal control over compliance that we consider to be a significant deficiency as described in the accompanying schedule of findings and questioned costs as item 2011-03. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

This report is intended solely for the information and use of management, others within the entity, the Department for Local Government, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,



Percy and Gray, PSC
Certified Public Accountants

February 12, 2013

MAGOFFIN COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For The Year Ended June 30, 2012

**MAGOFFIN COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

Fiscal Year Ended June 30, 2012

A. SUMMARY OF AUDIT RESULTS

1. The Auditors' report expresses an unqualified opinion on the governmental activities, each major fund, and the aggregate remaining fund information of Magoffin County. .
2. There were three material weaknesses relating to the audit of the financial statements reported in the Independent Auditors' Report.
3. No instances of noncompliance material to the financial statements of Magoffin County were disclosed during the audit.
4. One significant deficiency relating to the audit of the major federal awards programs is reported in the Independent Auditors' Report.
5. The auditors' report on compliance for the audit of the major federal awards programs for Magoffin County expresses an unqualified opinion.
6. There is one audit finding relative to the major federal awards programs for Magoffin County reported in Part C of this schedule.
7. The programs tested as major programs were: Department of Agriculture - Emergency Watershed Protection Program (CFDA #10.923); Department of Homeland Security - Public Assistance Grants (CFDA # 97.036).
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Magoffin County was not determined to be a low-risk auditee.

B. FINDINGS – FINANCIAL STATEMENT AUDIT

2012-01 The Fiscal Court Should Improve Procedures Over Capital Assets

During our testing of capital assets, we noted that the county was not adequately tracking capital assets additions and disposals in accordance with GASB Statement No. 34. The county failed to update the capital asset listing for the fiscal year.

We recommend the Fiscal Court develop and implement a system to track additions that meet the capitalization threshold and to remove retirements/disposals of capital assets from the capital asset listing throughout the fiscal year.

County Judge/Executive's Response: Has been updated and corrected.

2012-02 The Fiscal Court Should Record Receipts For Reimbursements Of Expenditures In The Fund For Which The Expenditure Was Recorded

In 2010, there was a \$200,000 state grant deposit into the LGEA Fund but the expenditure was recorded in the General Fund. This has shown on the balance sheet of the audit report since 2010 as a Due To/Due From amount, since the county has not yet made the transfer.

We recommend that the Fiscal Court transfer the state grant funds from the LGEA Fund to the General Fund to eliminate this Due To/Due From amount.

County Judge/Executive's Response: Monies have already been transferred to correct problem.

MAGOFFIN COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2011
(Continued)

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT

2012-03 The County Should Strengthen Controls Over Payroll As It Relates To Federal Grants

CFDA# 97.036

Federal Program: Public Assistance Grant

Federal Agency: U.S. Department of Homeland Security

Pass-Through Agency: Kentucky Department of Military Affairs

Compliance Area: Allowable Costs/Cost Principles

Amount of Questioned Costs: \$19,232.13

During our audits of the fiscal year ending June 30, 2012, our single audit testing of the Public Assistance Grant major federal award program for a tornado in accordance with the Single Audit Act, and OMB Circulars A-102, A-110 and A-133, revealed several instances of errors in the reporting of allowable labor costs. The Fiscal Court failed to implement controls that assured that hours reported for reimbursement purposes agreed to timecards and that proper approval by county personnel was received. This failure resulted in \$19,232.13 in labor and equipment costs being questionable.

We recommend that the Fiscal Court implement adequate controls to allow accurate reporting of expenditures of federal awards for labor costs.

County Judge/Executive's Response: During the immediate aftermath of the tornado damage of March 2, 2012, Magoffin County operated under a state of emergency. By July 2012, 90% of our debris and other county damage was mitigated. The above requirement fell in the 10% we simply did not have time to correct.

**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

MAGOFFIN COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2012**

CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM

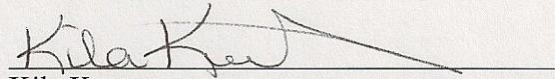
MAGOFFIN COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2012

The Magoffin County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.

A handwritten signature in dark ink, appearing to read 'Charles Hardin', is written over a horizontal line.

Charles Hardin
County Judge/Executive

A handwritten signature in dark ink, appearing to read 'Kila Keeton', is written over a horizontal line.

Kila Keeton
County Treasurer

